

Teachers' Retirement Board
Investment Committee
Open Session

Subject: Report of the Chief Investment Officer	Item Number: <u>14</u> Attachment(s): <u>5</u>
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Action: _____	Date of Meeting: <u>April 1, 1998</u>
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Information: <u>X</u>	Presenters: <u>Mr. Mitchell</u>
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The following is a summary of the developments in the financial markets that have occurred between March 1, 1998 and March 20, 1998.

1. The yield on the 30 year U.S. Treasury security has decreased from 6.01% to 5.90%. The market value of the S&P 500 Index has increased from 1,048 to 1,076.

2. The U.S. dollar strengthened compared to the mark (1.82 to 1.81) and yen (129 to 127) while weakening compared to the pound sterling (1.67 to 1.64).

3. The Federal Reserve Board of Governors next scheduled meeting is March 31, 1998. The consensus is that short term interest rates will remain unchanged.

4. The price of oil reached a twelve year low at \$12.50 per barrel.

California State Teachers' Retirement System
Investment Summary
For the Period ended February 28, 1998

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Investment Summary - Market Value (amounts in millions)									
Asset	This Month		One Year Ago		Three Years Ago		Five Years Ago		
Domestic Equity	\$	33,637	40.2%	\$	23,729	34.5%	\$	16,950	33.5%
International Equity		17,333	20.7%		13,113	19.0%		5,517	10.9%
Fixed Income		25,708	30.7%		25,153	36.5%		21,713	42.9%
Global Asset Allocators		2,473	3.0%		2,605	3.8%		1,684	3.3%
Private Equity		3,640	4.3%		3,077	4.5%		2,119	4.2%
Liquidity		982	1.2%		1,198	1.7%		2,666	5.3%
Total Market Value	\$	83,772	100.0%	\$	68,875	100.0%	\$	50,648	100.0%

Performance Returns for Major Asset Categories						
Asset	Month	Fiscal YTD	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Domestic Equity	7.28	19.80	33.19	29.40	19.85	17.08
Int'l Equity	6.27	-1.74	10.93	12.91	13.01	N/A
Fixed Income	-0.19	11.02	14.25	11.54	8.32	9.99
Global Asset Allocators	4.12	8.26	18.78	15.80	N/A	N/A
Real Estate	N/A	N/A	16.78	13.19	3.18	4.47
Alternative Investments	N/A	N/A	31.62	30.44	24.22	N/A
Liquidity	0.45	4.06	6.00	6.06	5.43	6.35
Total Fund	4.19	11.63	20.67	17.67	12.33	12.31
Indicies						
Domestic Equity Custom	7.15	20.52	34.35	30.63	20.97	17.49
MSCI EAFE	6.42	1.85	15.48	11.68	13.12	6.51
Salomon LPF	-0.19	9.97	13.04	10.95	8.04	9.85
MSCI World Equity	6.75	10.07	24.11	20.32	16.88	10.70
Real Estate Custom	N/A	N/A	11.35	9.45	6.42	4.37
T-Bill	0.40	3.46	5.26	5.39	4.77	5.58
Consumer Price Index	0.19	1.00	1.44	2.37	2.50	3.39
Wilshire 5000	7.28	20.37	34.48	30.15	20.71	17.36
Russell 3000	7.15	20.53	34.35	30.53	20.92	17.65
LB Gov / Corp	-0.20	8.12	10.71	9.33	6.97	8.79

Allocations of Cash and Reallocations of Assets (does not include changes in the market value)		
	Current Month	Past 12 Months
Cash Inflow:		
Contributions & misc receipts	\$ 247.5	\$ 3,556.0
Less: Benefits & misc. payments	\$ (253.7)	\$ (3,141.6)
Investment Income	\$ 366.2	\$ 2,966.8
Total Cash Inflow	\$ 359.9	\$ 3,381.2
Cash Allocation:		
Domestic Equity	\$ (112.0)	\$ 2,180.8
International Equity	\$ 257.9	\$ 2,452.3
Fixed Income	\$ (45.6)	\$ (1,231.5)
Global Asset Allocators	\$ 6.4	\$ 15.5
Private Equity	\$ 20.8	\$ 264.7
Liquidity	\$ 232.4	\$ (300.7)
Total Cash Allocation	\$ 359.9	\$ 3,381.1

<i>Asset Allocation Percentage</i>				
Assets	Actual	Target	Difference	Range
Public Equity	62.3%	63.0%	(0.7%)	57 - 69
Public Debt	33.3%	27.0%	6.3%	23 - 32
Private Assets	4.3%	10.0%	(5.7%)	8 - 12
Total Investment Assets	100.0%	100.0%		
<i>Which can be expanded to show</i>				
Domestic Equity	40.7%	38.0%	2.7%	35 - 41
International Equity	21.6%	25.0%	(3.4%)	22 - 28
<i>Total Public Equity</i>	62.3%	63.0%	(0.7%)	57 - 69
Debt	32.2%	26.0%	6.2%	23 - 29
Cash	1.2%	1.0%	0.2%	0 - 3
<i>Total Public Debt</i>	33.3%	27.0%	6.3%	23 - 32
<i>Total Private Equity</i>	4.3%	10.0%	(5.7%)	8 - 12
Total Investment Assets	100.0%	100.0%		
<i>Which can be compared to the strategic targets</i>				
Core Domestic Equity	37.1%	38.0%	(0.9%)	35 - 41
Core International Equity	21.6%	25.0%	(3.4%)	22 - 28
<i>Total Public Equity</i>	58.7%	63.0%	(4.3%)	57 - 69
Debt	32.2%	26.0%	6.2%	23 - 29
Cash	1.2%	1.0%	0.2%	0 - 3
<i>Total Public Debt</i>	33.3%	27.0%	6.3%	23 - 32
Private Equity - Funded	4.3%	10.0%	(5.7%)	8 - 12
Allocated Not Funded - Dom Equity	3.6%	0.0%	3.6%	
<i>Total Private Equity</i>	8.0%	10.0%	(2.0%)	8 - 12
Total Investment Assets	100.0%	100.0%		

California State Teachers' Retirement System
Off Balance Sheet Transactions
For the period ended February 28, 1998

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Currency Hedging - Market Value (amounts in millions)						
Managers	Pacific Basin		European		Total	
Active International	\$1,419.98	16.5%	\$3,408.34	5.3%	\$4,828.31	8.6%
Passive International	\$3,891.73	16.5%	\$6,578.13	3.3%	\$10,469.87	8.2%
Global	\$169.48	-39.2%	\$989.64	36.2%	\$1,159.12	25.2%
* Does not include emerging market securities, Canadian stocks, cash or accruals.						

Currency Realized Gains/(Losses) (amounts in millions)			
Managers	Currency Realized Gains/(Losses)		
	1 Month	1 Year	Since Inception
Active International	\$5.04	\$47.76	\$101.38
Passive International	\$8.18	\$144.66	\$431.02
Global	\$6.27	\$47.55	\$100.09

Securities Lending Income			
Asset	Current Fiscal Year 7/97-6/98	vs.	Prior Fiscal Year 7/96-6/97
Domestic Equity	\$6,149,751		\$4,551,538
International Equity	\$11,289,891		\$8,583,364
US Treasury	\$11,907,674		\$12,696,649
Other Fixed Income Securities	\$1,214,703		\$1,953,026
Total Income	<u>\$30,562,019</u>		<u>\$27,784,577</u>

Securities Lending (On-Loan/Collateral Summary)			
Asset	Securities On-Loan	Collateral Valuation	Percent
Domestic Equity	\$2,584,359,648	\$2,798,303,419	108%
International Equity	\$4,038,199,605	\$4,217,945,412	104%
US Treasury	\$9,211,890,480	\$9,392,438,689	102%
Other Fixed Income Securities	\$1,064,064,976	\$1,086,562,192	102%
Total Value	<u>\$16,898,514,709</u>	<u>\$17,495,249,712</u>	104%

Please note: Attachment 2 is not available in electronic format at this time.

California State Teachers' Retirement System
Global Managers
As of February 28, 1998

TC46 BARING INTERNATIONAL INVESTMENT LTD.					
Region	Stocks	Bonds	Net Forward Position	Net Exposure	%
Pacific Basin	\$45,046,124	\$0	\$66,460,588	\$111,506,712	13.27%
Europe	\$224,113,799	\$161,325,770	(\$358,329,201)	\$27,110,368	3.23%
Canada	\$0	\$4,265,290	\$8,046,800	\$12,312,090	1.47%
Emerging Markets	\$32,695,182	\$0	\$0	\$32,695,182	3.89%
Total Non-Dollar	\$301,855,105	\$165,591,060	(\$283,821,813)	\$183,624,352	21.86%
United States	\$126,015,172	\$191,262,548	\$283,821,813	\$601,099,533	71.55%
Total Invested	\$427,870,277	\$356,853,608	\$0	\$784,723,885	93.41%
Cash/Receivable/Payable				\$55,344,283	6.59%
Total Assets				\$840,068,173	100.00%

TC47 BRINSON PARTNERS, INC..					
Region	Stocks	Bonds	Net Forward Position	Net Exposure	%
Pacific Basin	\$58,982,380	\$18,269,100	\$66,153,277	\$143,404,757	18.74%
Europe	\$132,160,523	\$182,243,419	(\$89,635,008)	\$224,768,934	29.38%
Canada	\$8,014,045	\$26,715,193	(\$15,946,895)	\$18,782,343	2.45%
Emerging Markets	\$0	\$0	\$0	\$0	0.00%
Total Non-Dollar	\$199,156,948	\$227,227,712	(\$39,428,626)	\$386,956,034	50.58%
United States	\$90,033,538	\$209,066,238	\$39,428,626	\$338,528,402	44.25%
Total Invested	\$289,190,486	\$436,293,950	\$0	\$725,484,436	94.82%
Cash/Receivable/Payable				\$39,623,825	5.18%
Total Assets				\$765,108,261	100.00%

TC48 FIDUCIARY TRUST COMPANY INTERNATIONAL					
Region	Stocks	Bonds	Net Forward Position	Net Exposure	%
Pacific Basin	\$26,928,156	\$20,250,656	(\$4,766,516)	\$42,412,296	4.89%
Europe	\$202,996,375	\$86,803,964	(\$75,743,412)	\$214,056,927	24.67%
Canada	\$5,901,875	\$1,259,473	\$22,399,102	\$29,560,450	3.41%
Emerging Markets	\$26,527,689	\$2,545,805	\$0	\$29,073,494	3.35%
Total Non-Dollar	\$262,354,095	\$110,859,898	(\$58,110,826)	\$315,103,167	36.31%
United States	\$247,945,342	\$200,094,837	\$58,110,826	\$506,151,005	58.33%
Total Invested	\$510,299,437	\$310,954,735	\$0	\$821,254,172	94.65%
Cash/Receivable/Payable				\$46,445,776	5.35%
Total Assets				\$867,699,948	100.00%

GLOBAL MANAGERS SUMMARY					
Region	Stocks	Bonds	Net Forward Position	Net Exposure	%
Pacific Basin	\$130,956,660	\$38,519,756	\$127,847,349	\$297,323,765	12.02%
Europe	\$559,270,697	\$430,373,153	(\$523,707,621)	\$465,936,229	18.84%

California State Teachers' Retirement System
Global Managers
As of February 28, 1998

Canada	\$13,915,920	\$32,239,956	\$14,499,007	\$60,654,883	2.45%
Emerging Markets	\$59,222,871	\$2,545,805	\$0	\$61,768,676	2.50%
Total Non-Dollar	\$763,366,148	\$503,678,670	(\$381,361,265)	\$885,683,553	35.82%
United States	\$463,994,052	\$600,423,623	\$381,361,265	\$1,445,778,940	58.47%
Total Invested	\$1,227,360,200	\$1,104,102,293	\$0	\$2,331,462,493	94.28%
Cash/Receivable/Payable				\$141,413,884	5.72%
Total Assets				\$2,472,876,382	100.00%

Background

In accordance with the Timeline previously approved by the Investment Committee during the September 1997 meeting, staff began managing a \$1 billion paper portfolio on January 1, 1998. The \$1 billion portfolio was constructed with holdings in the same proportion as it appears in the S&P 500 Index. The following information highlights the status of the portfolio and summarizes the activity for the month of February 1998.

Comparative Status Report As of February 27, 1998

	Portfolio	Benchmark	Difference
Total Return - February	7.186% ¹	7.212% ²	-0.026%
Total Return - Year-To-Date	8.366%	8.398%	-0.032%
Market Value	1,086 (\$ mil.)	8,203 (\$ bil.)	--
Total Number of Issues	500	500	0
<u>Risk Profile</u>			
Forecast Tracking Error	0.02%	--	--
<u>Attribute Profile</u>			
P/E Ratio	26.07	26.07	0
Dividend Yield	1.52	1.52	0

The 2.6 basis point underperformance was primarily due to unequitized cash and receivables in the portfolio.

¹ Portfolio performance calculated by the internal portfolio accounting system (Portia).

² Index performance results provided by Standard and Poor's. There is a 2.6 basis points difference in the Index return calculated by Standard and Poor's and Wilshire Associates, with Wilshire Associates yielding the lower returns. The major causes of the difference in the reported Index returns result from the use of different pricing services and different reflection of when changes occur in the composition and capitalization of the S&P 500 Index. State Street Bank Analytics reports the performance results calculated by Wilshire Associates.

**Summary of S&P 500 Paper Portfolio Changes
For the Month of February 1998**

Date	Company	Ticker	Old Shares	New Shares	Portfolio Manager Decision	Market Value (\$)	Reason
2/4	Apache Corp	APA	11,971	12,646	Buy 675 shares APA.	22,613	Increased shares outstanding to reflect conversion of debentures to common stock.
2/13	Ahmanson H.F.	AHM	12,496	14,489	Transfer in 1,993 shares AHM.	119,455	AHM merged with Coast Savings Financial. (CSA). Each share CSA exchanged for 0.8082 share AHM.
2/13	GPU Inc.	GPU	15,982	16,789	Buy 807 shares GPU.	32,129	Increased shares outstanding to reflect private placement of 6.100 million new shares.
2/18	MBIA Inc.	MBI	11,828	12,963	Transfer in 1,135 shares MBI.	78,317	MBIA merged with CapMAC Holdings Inc. (KAP). Each share KAP exchanged for 0.4675 share of MBIA.
2/20	ITT Corp. Mercantile	ITT MTL	15,438 0	0 17,245	Transfer in 17,245 shares MTL. Transfer out 15,428 shares ITT.	1,266,881 967,876	Starwood Lodging (HOT) merged with ITT. Each share ITT exchanged for 1.543 share of HOT. MTL added to replace ITT.
2/20	78 S&P 500 Companies	Various			Execute buy program.	557,072	Reinvest dividend cash flow.

Please note: Attachment 5 is not available in electronic format at this time.